Performance and Finance Select Committee
5 October 2018
Medium Term Financial Strategy 2019/20 to 2022/23
Report by Director of Finance, Performance and Procurement

Executive Summary

This report reviews and updates the Medium Term Financial Strategy for the next four years. It considers the primary sources of funding and reviews and updates the assumptions in the strategy. These sources of funding include government grants, business rates, and council tax. The report outlines the uncertainty of future government funding and the potential impact of government initiatives. Key pressures facing our services are also considered including inflation and service demand pressures.

The budget gap before savings and council tax is **£145.1m** over the next four years. After assuming an increasing council tax but before delivery of savings the budget gap is **£92.3m**.

The forecasts will be updated throughout the autumn as we approach setting the budget for 2019/20.

As in recent years, the Cabinet has been proactive in identifying at an early point those areas of spend which should be considered for savings or other change. This year it has been possible to publish these in a more timely way in the Forward Plan and to enable individual portfolio proposals to be previewed by the relevant Select Committee so that effective and timely scrutiny is available, in addition to other appropriate consultation or engagement prior to any decision being taken by the Executive. This has been separately communicated to members and the timetable for scrutiny is included in Appendix 2.

Recommendations

The Committee is asked to:

1) Note the forecasts and assumptions leading to the current budget gap (before considering savings) over the 4 year period covering 2019/20 to 2022/23 of **£145.1m**;

2) Note that assuming a council tax increase of 4.99% next year followed by 1.99% for the subsequent period that the budget gap would be **£92.3m**; and

3) Comment upon the indicative timetable as set out in the report for drawing up a budget for 2019/20.

Background

1. West Sussex County Council continues to face a very challenging financial situation arising from a combination of further reductions in resources provided by Government and a rising demand for many of our services from a growing population. Service and resource planning continues to be shaped by the need to meet challenging financial targets, with demographic pressures, inflationary and market pressures increasing costs, rising service demand pressures alongside continued significant reduced core financial funding from Government making a very difficult financial environment.

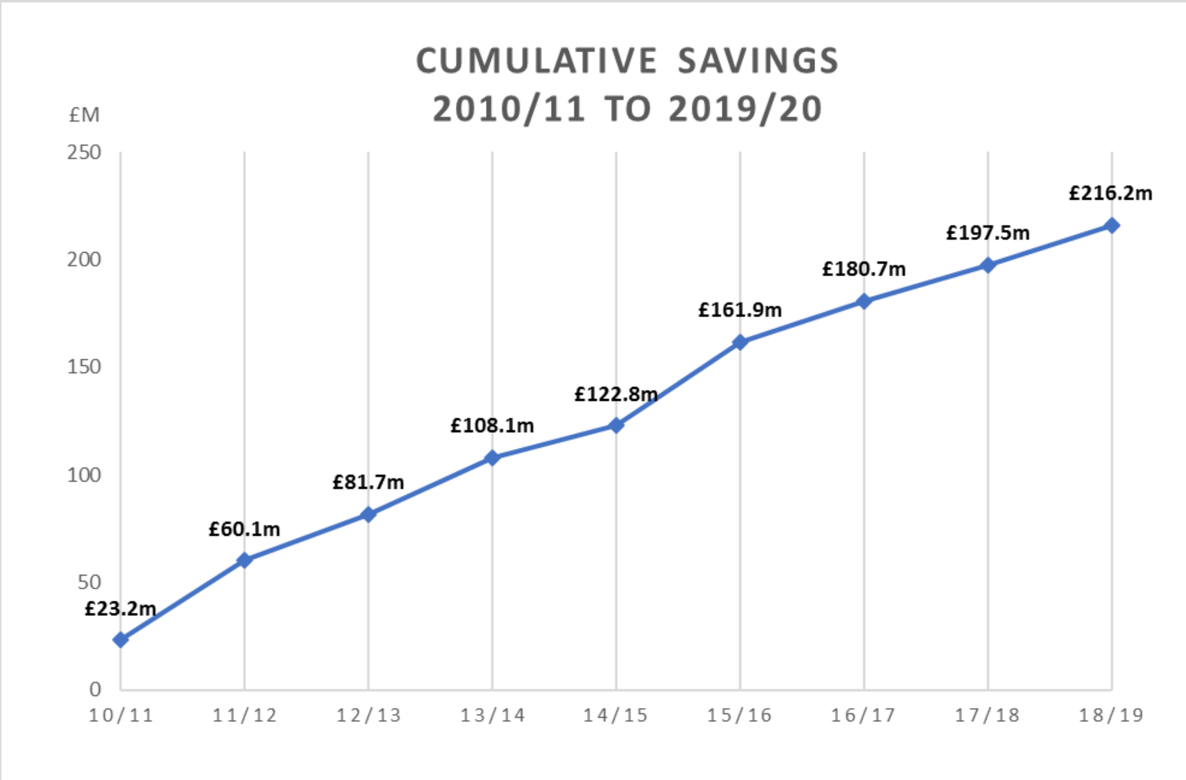
2. The County Council's Medium Term Financial Strategy is updated on a regular basis during the year in response to new information on the financial and service challenges the authority faces. It provides a rolling assessment of the funding envelope the authority has to work within and the spending pressures expected over the next four financial years to underpin service and financial planning. Our projections suggest that our finances will continue to be under very significant pressure over the longer term.

3. The key outcomes that underpin the financial planning of the Council are:
    a. Giving our children and young people the best start in life
    b. Ensuring West Sussex is a prosperous place
    c. Our communities will be strong, safe and sustainable
    d. We will support you in later life to remain independent
    e. We will be a council that works for our communities

4. Reviewing the Medium Term Financial Strategy (MTFS) remains essential to ensuring the County Council's corporate aims and objectives can be delivered despite these challenging times. The loss of core funding from Government since 2010 amounts to around **£145m** in core revenue support, or **£388** per household in West Sussex.

5. Delivery of savings necessary to ensure we live within our means, whilst protecting front line services, continues to be a core priority of the County Council. Since 2010, the authority will have achieved savings of over £216m by the end of this financial year (see chart 1 below).

CHART 1: Cumulative Savings



What Matters to You? survey

6. Part of the background to the budget for 2019/20 is the consultation that has taken place over the summer in the What Matters to You? survey.

7. Key headlines from that consultation include:
   - The service area most commonly selected as a priority was **A Strong, Safe and Sustainable Place**, followed by **A Council that Works for the Community**
   - In previous years, **Keeping you safe** had been the top priority.
   - 939 (**44%**) respondents were in favour of a Council Tax increase somewhere between 2.1% and 4.98%.
   - **31**% of respondents preferred an increase in line with the maximum of 4.99%.
   - Common themes for what is important to respondents for the future of West Sussex were **improving highways** throughout the County, **carefully considering** areas used for **development** and **improving infrastructure** to ensure services are available for new and existing residents.

Approach of the MTFS

8. Reviewing the MTFS remains essential to ensuring the Council's medium term financial sustainability and to support robust service planning. The overall financial strategy is to ensure that the Council's resources are directed to supporting the objectives of our corporate plan. Within that overall approach, the aim of the MTFS is based on the following guiding principles:

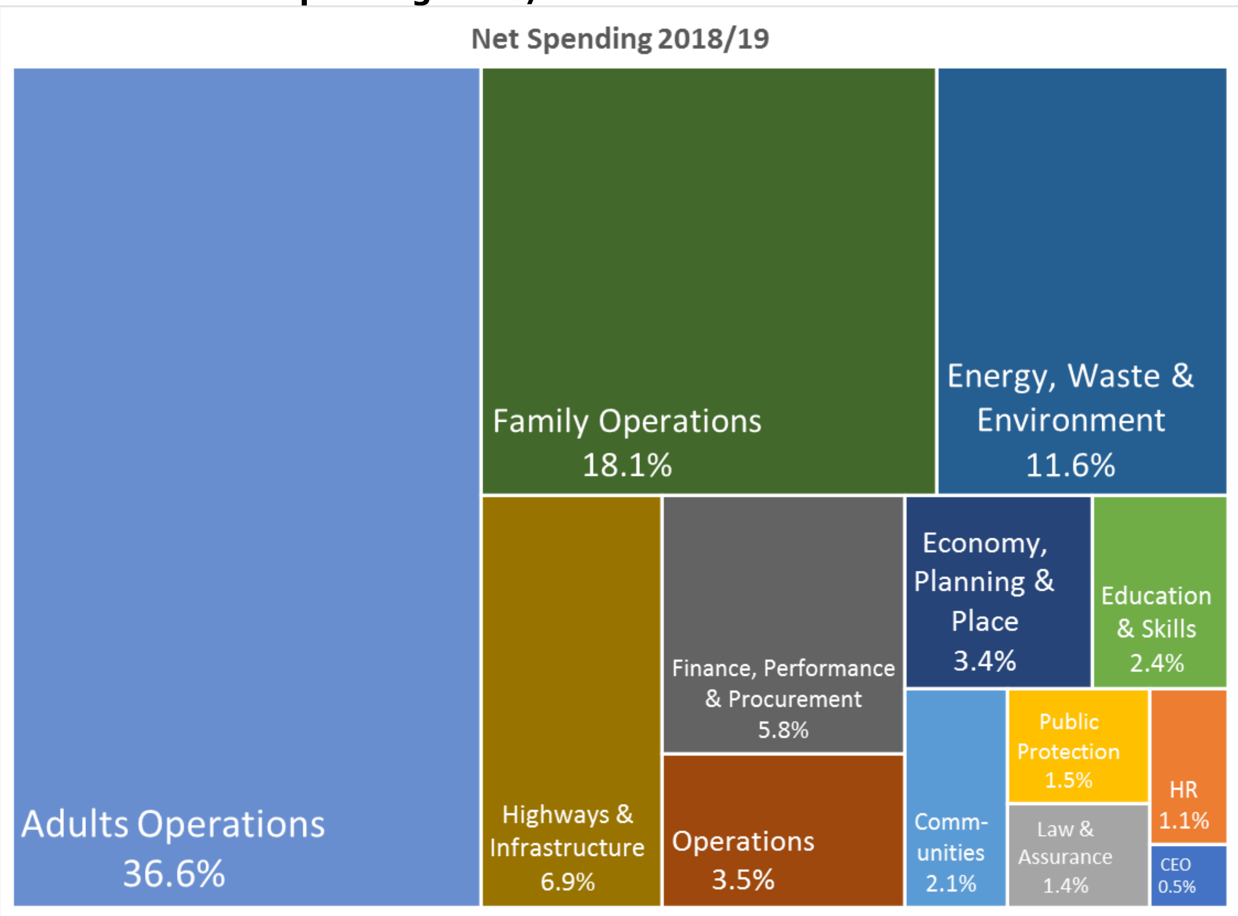
a) Identify the key financial influences on our medium term planning and the assumptions made in developing the plan;
b) Estimate the potential savings required in future years and to plan how these can be achieved whilst delivering on council objectives;
c) Consider the challenges and likely risks associated with the plan and how we will deal with them;
d) Promote financial sustainability for County Council services over the longer term and provide the basis for future service planning and priorities, thereby enabling the Section 151 Officer to confirm the robustness of the budget to reassure the Cabinet and Council.

West Sussex County Council – Financial Standing

9. The County Council agreed a balanced budget for 2018/19.

10. The net budget for 2018/19 stands at **£533.9m**, and is shown below in chart 2 by service area. As the chart shows, the areas of Adults and Family operations (at 36.6% and 18.1% respectively) are by far the most significant areas of council expenditure

CHART 2: Net Spending 2018/19



11. In the current financial year the County Council faces an estimated overspend of **£5.734m** which is being mitigated through expenditure controls e.g. a vacancy freeze being imposed and only essential posts are being filled with the agreement of the Chief Executive.

National Planning Context - The Outlook for Public Finances

12. In 2016 West Sussex accepted the Government's offer of a fixed finance settlement until 2019/20. This brought a limited degree of certainty, but only confirmed our funding from Revenue Support Grant (RSG) and our top-up from business rates. This Medium Term Financial Strategy is therefore based on the funding levels contained within that four year settlement to 2019/20.

13. The Officer for Budget Responsibility (OBR) projections made in July 2018 suggest that the public finances are likely to come under significant pressure over the longer term, due to an ageing population and further upward pressure on health spending from factors such as technological advances and the rising prevalence of chronic health conditions. Government will need to spend more as a share of national income on age-related items such as pensions and (in particular) health care.

14. Economic forecasts over the medium to longer term continue to have political uncertainty as their backdrop, giving rise to a number of different views with potential differing impacts for public finances. The International Monetary Fund has recently highlighted the recession risks of a disruptive exit from the EU, whilst Economists for Free Trade has argued Brexit could boost the UK economy by as much as £135 billion a year.

15. Forecasts by the OBR at the time of the March Budget were based on broad-brush assumptions about the economy and public finances after the UK's exit from the EU, pending a meaningful basis upon which to predict the precise end-point of the Brexit negotiations. In terms of current economic indicators, at the time of writing the key points from the recent Bank of England Report are as follows: -

    - CPI was 2.4% in quarter 2 of 2018, as expected, and was reported as still at this level for August 2018. The Bank expects inflation to rise temporarily before falling back again during the autumn and a forecast of 2.2% by this time next year.

    - GDP growth is projected to recover from its temporary weakness at the start of 2018, and average around 1¾% over the forecast period to 2021.

16. At its meeting on 1 August 2018, the Monetary Policy Committee (MPC) voted unanimously to increase the Bank Rate by 0.25 percentage points, to 0.75%. The County Council will maintain a close watch on interest rates and their estimated impact on the County Council finances for borrowing and Treasury Management investment purposes.

Local Authorities and their Financial Pressures

17. The publicity around the major financial difficulties many Councils face has given rise to added interest in the financial resilience of local authorities after eight years of austerity in their funding from Government.

18. All authorities with social care responsibilities are experiencing significant extra spending pressure. The continuing drive for efficiency to cope with that additional spending, plus continued reduced core funding from Government translates into a major financial strain with some authorities coping less well than others. Independent commissioners, in their work on Northamptonshire County Council (NCC), identified a number of issues including failure to secure best value in the delivery of services over a prolonged period; ineffective budget management and a reliance on one-off items, reserves, windfalls and capital receipts to support the budget.

19. The NCC case, and other well publicised financial difficulties some authorities have faced, has led to work by CIPFA on the financial resilience of local authorities and a proposal to publish a 'score-card' of financial resilience. Whilst the County Council has doubts about the merits of this work, it is very mindful of the need to ensure financial resilience is a core principle that guides the council's decisions. For example, in West Sussex savings are only included in the budget after considerable work that justifies a belief that the saving can be achieved. Savings at West Sussex have delivered in excess of 95% of the level of planned savings in the last 5 years. In contrast, Northamptonshire has delivered only around 68% of its level of planned savings over the last five years.

The Local Context – The Local Government Finance Settlement

20. The finance settlement announced in February confirmed the sums expected per the fixed settlement and within the draft budget for our core funding from the Government. This core funding includes Revenue Support Grant and the allocation from the business rate funding system and is known as the Settlement Funding Assessment (SFA). The SFA fell to **£88.4m** in 2018/19, as shown in table 1 below. However, on top of the reduced SFA, the authority also lost £6.3m in transition grant funding, making the total loss of core funding £19.6m.

Table 1: Settlement Funding Assessment 2017/18 to 2019/20

Funding Item	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	53.1	27.7	12.1	-2.6
Business Rate Top Up	40.7	42.6	44.1	45.0
Baseline Funding (10% Local Allocation Share)	31.8	31.4	32.2	32.9
Sub Total: Settlement Funding Assessment	**125.6**	**101.7**	**88.4**	**75.3**
Transition Grant	6.2	6.3	Ends	n/a
TOTAL	**131.8**	**108.0**	**88.4**	**75.3**
Year-on-year change		**-23.8**	**-19.6**	**-13.1**

21. For 2019/20, the reduction in the County Council's SFA is a further £13.1m. In addition, Government continues to reduce the Public Health Grant the authority receives, and this is anticipated to reduce by £0.9m in 2019/20.

SOURCES OF FUNDING

Business Rate Growth

22. The County Council currently receives a 10% share of local business rate receipts, and benefits to the extent of any growth in business rates in excess of Government's assumed RPI growth by 10%. The County Council has benefitted over a number of years from strong proceeds from business rates, with real terms growth from this income stream.

23. Once the system is reset in 2020/21, with Government is intending a move to a 75% business rate retention system, the County Council could receive a substantial increase in its share of business rates. Government should implement this in a financially neutral way, with other funding streams from Government being cut back, but often such major changes can produce winners and losers even if the national picture is a neutral one. Should the County's share increase from its current 10%, the opportunity will arise for a longer term gain. With a higher allocation of business rates the financial benefit will be felt if there is a real terms increase in business rates, with a higher share retained by the County Council. However, there is also an additional risk. If business rates do not increase or do not keep pace with inflation, the County Council will suffer real term cuts in its funding from this source and the higher our allocation the greater the risks.

24. Furthermore, Government will re-estimate the baseline from which gains (or losses) from the business rate system are estimated and authorities who have enjoyed strong gains, such as West Sussex, will lose the benefit of a proportion of that gain. The exact sum lost will only be known when Government produces the details of its reset but for planning purposes our assumption is currently £1m of funding from business rate growth will be lost.

25. Excluding the loss mentioned in paragraph 24, future projections for the County's income from business rates include a 2% real terms growth in the MTFS projections. The Council's reserves have been planned with a view to supporting the budget at times of poor growth (such as during recession) ensuring a strong degree of resilience exists if such growth is not achieved.

26. Creation of a local business rate pool, with the County Council as lead authority, from 1 April 2015 has provided around **£12.9m** of additional business rate income, including the estimate for the current year. The Pool generates additional revenue per annum from lowering the levy payable to Government for 'excessive' growth in business rates. This has been available for local use on priority areas as agreed between West Sussex and the Districts and Boroughs.

75% Business Rate Pilots

27. Ahead of the April 2020 introduction of the new funding system, West Sussex County Council has joined with its Districts and Boroughs with the aim of being a pilot area for the 75% retentions scheme from 2019/20.

28. It is expected we will only be informed if we have been selected as a pilot area in December this year, and if so a formal decision will be taken at the time of the local government finance settlement, setting out the pros and cons of being a pilot area.

New Homes Bonus (NHB)

29. The Coalition Government introduced the New Homes Bonus (NHB) in 2011/12 which is targeted at rewarding increases in housebuilding and dealing with empty properties. The proceeds are split 80% in favour of Districts and Boroughs and 20% for the County Council. The Government's justification for the higher District/Borough allocation was that as planning authorities they had a significant influence on economic growth.

30. The scheme has been recently reformed with grant now paid over 4 years rather than 6. In addition, a national baseline for housing growth of 0.4% has been introduced and growth below this level will not qualify for grant.

31. The County Council uses the NHB grant to fund its base budget. Government originally provided indicative figures for future NHB funding levels to 2019/20 in its finance settlement.

32. As part of its summer consultation, Government has stated that "2019-20 represents the final year of funding agreed through the Spending Review 2015…. it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation." The MTFS therefore makes the assumption that Government is likely to reduce the level of support provided through the NHB. For prudence, it has been assumed Government will continue the current allocations for the usual 4 year period, but will make no new allocations i.e. the NHB will be phased out over 4 years. The assumed funding is given below:

TABLE 2: New Homes Bonus: Assumed Allocations for West Sussex CC

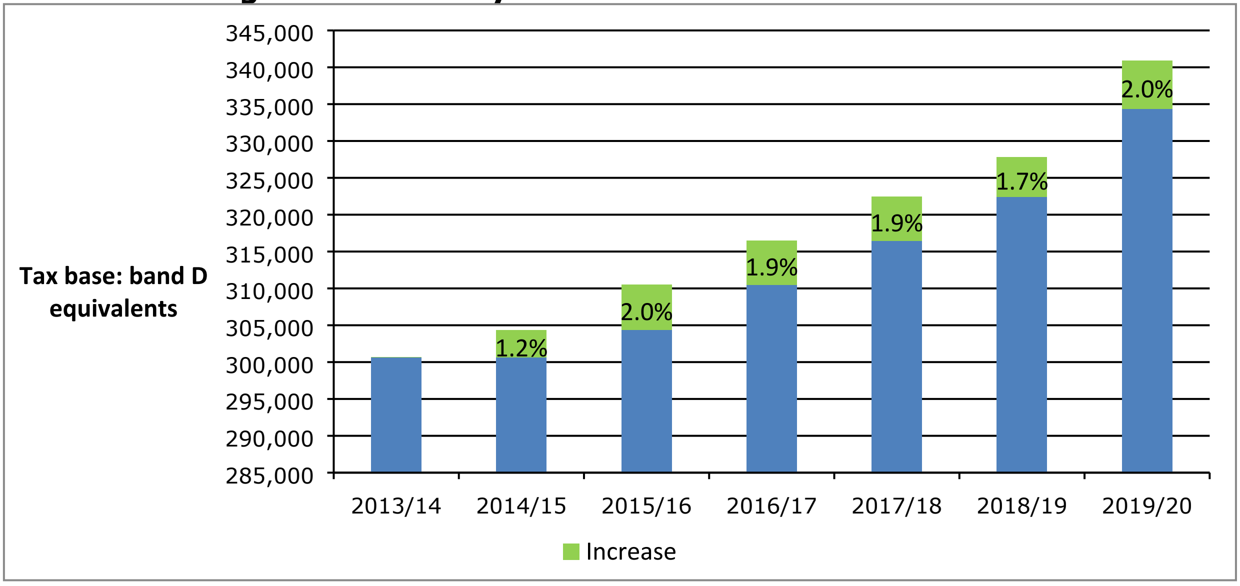
New Homes Bonus	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Assumed NHB Allocations	4.1	3.7	2.3	1.4	0.5

Council Tax Base

33. The MTFS assumes a 2.0% increase in the council tax base for 2019/20 (this is worth **£9.0m)**. For 2020/21 onwards 1.7% has been assumed. **Chart 3 below**

shows how the assumed increase in the County's tax base for 2019/20 compares with previous years.

Chart 3: Change in the County Council's tax base



34. If the actual increase is lower than the 2.0% assumed, the authority can use its budget management reserve to cover the difference to avoid sudden and late reductions causing last minute service cuts.

<u>Council Tax</u>

35. The assumption around the council tax rise – for planning purposes only – is shown in table 3 below.

TABLE 3: Funding from Assumed Council Tax Rise

Council Tax Increase	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Additional Income (see note 1)	13.2	9.7	10.3	10.7
Additional Income re Adult Social Care at 2.00%	8.8	n/a	n/a	n/a
Total Increase	**22.0**	**9.7**	**10.3**	**10.7**

Note 1*: For the core increase in 2019/20 the assumed rise is 2.99%, 1.99% has been assumed thereafter.*
Note 2: *Currently, 1% increase in Council Tax = £4.4m*

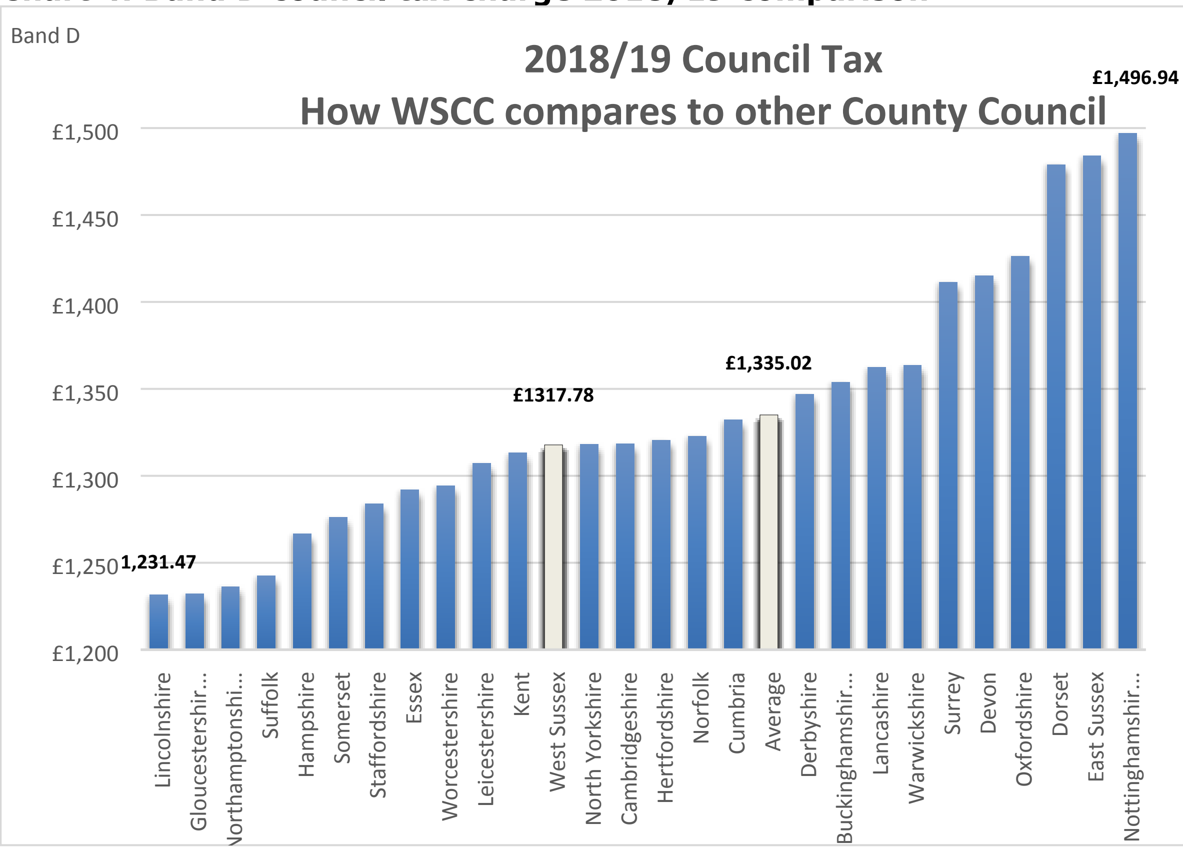
36. Currently, Government permits local authorities to raise an additional sum under the Adult Social Care precept, provided this is invested in the service. This was set at 6% maximum in total over the three years 2017/18, 2018/19 and 2019/20 provided no one year exceeded 3%.

37. The increase for Adults Social Care could therefore have been applied differently by different authorities over the period 2018/19 to 2019/20. West Sussex decided to apply a 2% increase in 2017/18 and in 2018/19, leaving a

maximum increase of 2% available next year (2019/20). Clearly all decisions on council tax will be taken by Members at County Council as part of the annual budget process.

38. The County Council has a strong track record of keeping council tax to the minimum possible. We kept the council tax at the same level between April 2010 and March 2016, during which time RPI rose by around **17%**. This freeze was supported by council tax freeze grants from Government, though this was effectively time limited support and removed from 2016/17 onwards. West Sussex County Council's council tax in 2018/19 is lower than the average for comparable authorities (**see Chart 4**). West Sussex council tax is £17.24 lower than the average for a Band D property, and is £179.16 below the highest rate charged and £86.31 above the lowest one.

Chart 4: Band D council tax charge 2018/19 comparison



39. Districts and Borough councils operate a collection fund for both council tax and business rates, which they are responsible for collecting. The actual tax collected may be more or less than expected, meaning that a surplus or deficit must then be allocated to local authorities - including the County Council – in the following year.

40. The figures for the surplus are normally notified to the Council by Districts and Boroughs each year but late in the budget process (no firm projections are available at the time of writing). The MTFS makes an assumption that there will be a surplus as indicated in table 4 below. Given the average surplus in the four year period 2015/16 to 2018/19 was £3.1m, an assumed surplus of £3.0m for 2019/20 is in line with this and is prudent going forward at £1.5m each year.

Table 4: Collection Fund Assumption

Collection Fund	Average surplus over last 4 years £m	2019/20 £m	2020/21 onwards £m
Council Tax and Business rates surplus	3.1	3.0	1.5

<u>Better Care Fund</u>

41. In the spring budget 2017, the Chancellor announced that Government would be bringing forward its plans for allocating extra funding for adult social care. It also confirmed that the mechanism for transferring this would be via the Improved Better Care Fund (iBCF). The allocation to the County Council rises from £14.4m to £16.8m in 2019/20 and is made up as follows in table 5:

TABLE 5: Improved Better Care Funding: Allocations for West Sussex CC

Better Care Fund	2018/19 £m	2019/20 £m
Previously announced	5.1	12.1
Additional funding announced in Spring Budget 2017	9.3	4.7
Improved Better Care Fund	14.4	16.8

42. The iBCF is subject to a number of conditions, which require it to be used for these purposes:

- Meeting adult social care needs
- Reducing pressure on the NHS, including supporting more people to be discharged from hospital when they are ready
- Ensuring that the local social care provider market is supported.

43. In addition Government has stipulated that the funding must be pooled within the West Sussex Better Care Fund (BCF) and included within the West Sussex BCF Plan (2017-2019), which has been agreed by the County Council and the three clinical commissioning groups in West Sussex.

44. There is no certainty that this funding will continue beyond 2019/20. The MTFS therefore assumes no permanent reliance on this funding stream.

<u>Public Health Funding</u>

45. Our Public Health Grant will reduce by a further £0.9m in 2019/20 – this is critical funding that helps enhance the health and wellbeing of residents. This is on top of over £4m of reductions since 2015/16 as Government decided to

reduce funding for Public Health by an average of 4% in real terms per annum over the 5 years to 2020.

Troubled Families Funding

46. The national Troubled Families programme is also due to cease in 2021, West Sussex County Council is expecting a £1.8m reduction in both the service transformation and payment by result elements of this grant; £0.6m reduction in 2019/20 followed by a further £1.2m reduction in 2020/21.

Dedicated Schools Grant

47. Local authority schools are funded directly via a ring-fenced grant the Dedicated Schools Grant (DSG). This is kept separate from the County Council funding, but as with the County Council our schools are under significant funding pressure. Within the DSG is funding for children with disabilities and other needs – the High Needs block. The West Sussex component of the DSG High Needs Block increases by £0.3m in 2019/20; set against a pressure of increasing numbers of children with Education Health Care Plans (EHCPs). Back in March 2015 we had 3,423 children and young people with EHCPs, and since that time those numbers have risen to 4,912 in March 2018 – an increase of 1,489 (43%). We are expecting a further 10% increase in the number of children and young people with EHCPs this year.

48. One of the main reasons for the increasing level of EHCPs has been the national extension of support to young people up to age 25 (previously it lapsed at age 19). Since 2015 West Sussex, along with all other local authorities, has been obliged to support a new cohort of young people aged 19-25 for which there has been no additional funding. Over 50% of the recent increase in numbers has been those over the age of 16. This is translating into £6m of pressure to West Sussex County Council for 2019/20, (partly in Education and Skills and partly with Children's Services) which will require difficult decisions about which other Council services to reduce, in order to balance the budget. West Sussex is by no means alone in facing these issues.

SOURCES OF FUNDING: SUMMARY

49. Part of recent finance settlements from Government have involved some authorities receiving so called 'negative Revenue Support Grant', whereby a negative allocation is given which then means it is deducted from another Government funding stream.

50. We already know the details of the finance settlement for 2019/20. There is the possibility that Government may cancel the previously announced negative RSG for West Sussex of £2.6m currently within the settlement figures.

51. The MTFS assumes that after 2019/20, austerity will continue with allocations to local authorities. This is likely to be compounded by the Fair Funding Review. We also know that in the short term, a reset of the business rate system will mean a loss of a significant part of the growth in business rates that the County Council has benefitted from over the last few years.

BASE BUDGET SPENDING PRESSURES

Inflation

52. Uplifts assumed for inflation are given in table 6 below. Inflation assumptions have been made based on:
    - We are assuming an allowance of 2%pa on pay, with Government no longer applying a strict pay cap on public sector pay. If inflation on pay is less than the assumption, the extra amount will be retained within corporate budgets. There is also an element of the County's pay bill that is subject to local, rather than national, agreement. An allowance should not be taken to mean pay will rise in line with the allowance assumed.
    - Applying the Office for Budget Responsibility's (OBR) forecast of RPI growth for areas where major contracts are linked to an RPI factor uplift.
    - For the purposes of estimation of the budget gap, CPI growth has been assumed for areas where demand led pressures means service budgets are already under pressure. This allowance will be under review as we prepare the draft budget.
    - Zero growth for areas of low priority where no increase can be accommodated (e.g. replacing tables/chairs).

TABLE 6: Inflation Assumptions summary (%)

	2019/20	**2020/21**	**2021/22**	**2022/23**
Pay	2.0%	2.0%	2.0%	2.0%
Major Contracts	3.5%	3.0%	2.9%	2.9%
Demand Pressures	2.4%	1.8%	2.0%	2.0%
Low priority	freeze	freeze	freeze	freeze

53. By adopting this approach to inflation, the County is seeking careful justification for all inflationary budget increases and taking active steps to ensure cost pressures are only recognised where necessary, rather than a blanket uplift given. **These uplifts will be adjusted, if considered justified, during the Autumn,** as we approach budget setting.

54. Fees and charges income is also under review. Any areas where income can potentially be increased beyond inflation will be identified for consideration to assist with budget pressures.

Budget Pressures

55. The population of West Sussex is expected to grow by around 44,000 over the period to 2022, a growth rate of over 1% per annum. Within that increase, the proportion of those aged over 65 is rising at a much faster rate than the overall increase. The rising numbers, coupled with increasingly more complex care needs for an older population translates into a financial pressure as a result of a higher demand for Adult Care Services.

56. Demographic changes are therefore an important pressure, but far from the only pressure. A high level summary of service pressures are listed below in table 7, with more detail set out in Appendix 1.

57. At the same time, we continue to receive a reducing level of funding from central Government, and as indicated in table 1, our core funding per the pre-announced fixed settlement is expected to reduce by a further £13.1m in 2019/20. As a result of lobbying, Government is considering withdrawing the County's negative RSG allocation of £2.6m, but even then we would still face reduced funding of £10.5m in our core allocation, plus reductions of £0.9m for Public Health Grant and £0.6m in grant for working with troubled families in 2019/20.

Table 7: Summary of key Budget Pressures: 2019/20 to 2022/23

Budget Pressure	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Inflation and Pay award	12.0	10.0	10.7	10.7	43.4
Time limited and one-off funds (including Think Family and Public Health funds)	2.4	2.2	0.0	0.0	4.6
Capital financing costs	1.4	2.1	1.5	1.5	6.5
Rising population impact on social care	7.3	7.8	5.8	5.8	26.7
National Living Wage	3.6	4.2	0.0	0.0	7.8
Children's Services demand pressures	7.9	1.9	1.9	2.1	13.8
Demand pressure on Education and Skills (mainly High Needs children and transport costs)	7.7	6.8	6.4	6.4	27.3
All other services	4.4	1.1	1.2	0.0	6.7
Corporate	2.9	0.3	3.8	3.7	10.7
Total pressures	**49.6**	**36.4**	**31.3**	**30.2**	**147.5**
As % of current net budget of £534m	**9.3%**				**27.6%**

58. Among the most financially significant pressures in 2019/20 are:

- £12.0m for pay and prices increases. Although the 1% public sector pay cap has now been removed with staff such as local government workers and fire fighters benefiting, the County Council has received no further funding from Government to assist with this pressures. The County Council will do all we can to minimise the inflationary increase needed and this will be reviewed within the budget setting process.
- £2.4m for time limited funding including £0.6m for Troubled Families work and a reduced grant for Public Health of £0.9m.
- Capital financing, extra costs for the capital programme of £1.4m.
- Demand led pressure of £7.3m in 2019/20, rising to £7.8m in 2020/21 to address the demographic pressure of rising numbers of older adults requiring care. This is largely attributable to both a rising number of clients (and West Sussex has strong growth in the numbers of those aged 65 plus) and more complex care needs due to longevity.
- £3.6m for the costs connected to the National Living Wage arising in Adults Social Care. This is a Government policy where the costs are felt directly by local authorities but not funded by the Government. By

2020/21, the minimum wage will have been uplifted to be in line with the National Living Wage, so no additional costs are included from that year onwards.

- £7.9m for Children's Social Care pressures from the growth in the Children Looked After service and in the area of intentionally homeless families continues to grow strongly. West Sussex is struggling to sustain its Children's Social Care Service as currently resourced, due to a combination of rapidly escalating complex demand, challenges to attract and retain staff and a market pressures to salary costs. This is significantly exacerbated by being surrounded by authorities investing to achieve a 'good' Ofsted rating (with associated low caseloads per social worker) or which are, spending heavily to turn around an 'inadequate' rating.
- £7.7m **–** for Education and Skills, made up mainly of (i) £2.4m **-** pressures for schools transport costs. Since September 2017, the numbers of pupils being transported by taxi has increased by 4.3% and the taxi expenditure has increased by 17.1%. This is due to the increasing complexity of transport requirements, with an average of 199 solo taxis being used each month since September (an increase of 27.5% over the same period last year) and the number of pupils transported to Independent Non-Maintained Special Schools each month has increased by 11.6% from 272 to 303 over the same period and (ii) £4.9m **-** for pressures to meet the rising number of children with Education Health Care Plans. Essentially the Dedicated School Grant funding from Government is not compensating for this rise in cost.

Summary Position

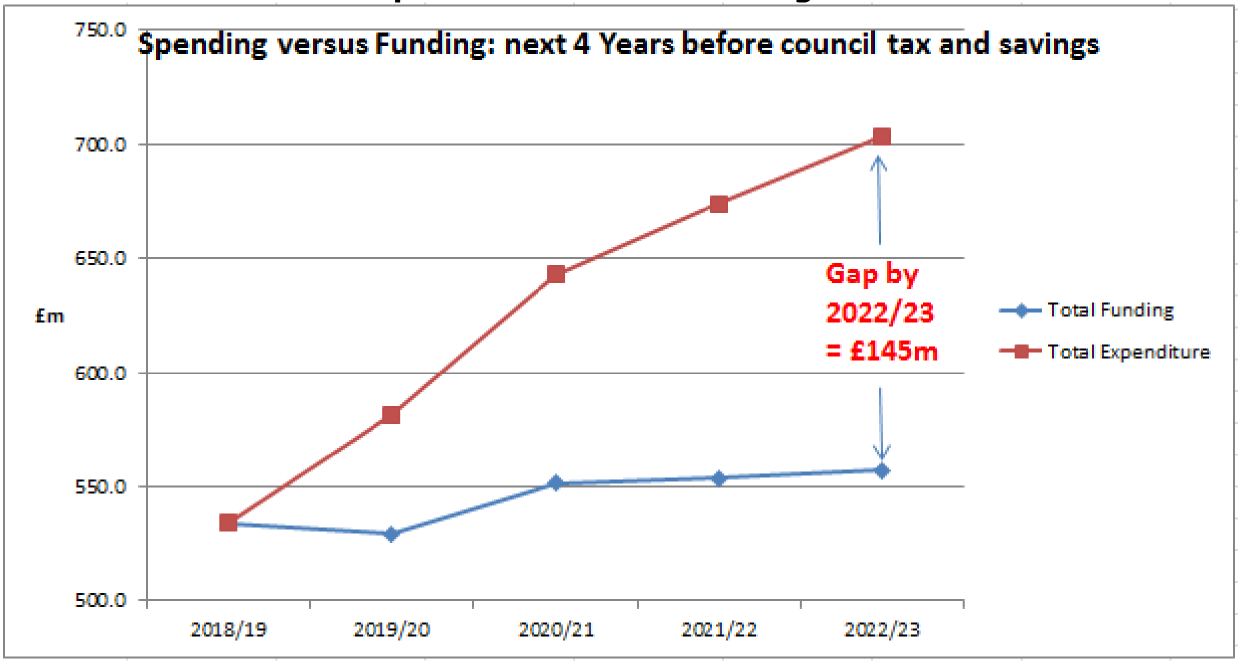
59. Table 8 below sets out the core projection for the funding gap the County Council faces over the next four years. The table indicates that the overall budget shortfall is **£92.3m** prior to considering savings programmes but assuming council tax rises. Without any council tax rise this budget shortfall rises to **£145.1m** over the coming four year period. This is based on the projections and assumptions as outlined above, on funding and spending pressures. The estimated shortfall for 2019/20 is **£28.9m** or **£50.9m** without a council tax rise.

TABLE 8: *SUMMARY BUDGET GAP*

Budget Gap	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Overall Gap £m**
Excluding an annual council tax increase:					
Total expenditure	580.4	590.7	582.4	583.4	
Total funding	529.5	551.5	553.7	557.1	
Budget gap excluding council tax increase	-50.9	-39.2	-28.7	-26.3	-145.1
Including an annual council tax increase:					
Total expenditure	580.4	612.7	614.1	625.4	
Total funding	551.5	583.3	595.7	609.8	
Budget gap including council tax increase	-28.9	-29.5	-18.4	-15.6	-92.3

Presented as a chart mapping forecast expenditure against funding, the gross budget gap would be as shown below in chart 5:

Chart 5: Forecast Expenditure versus Funding



NB: 2020/21 sees introduction of 75% funding via business rates, hence the jump in assumed funding before council tax (see paragraph 23).

Approach on Savings

60. The total reduction in our core revenue funding from Government since 2010 has been around £145m, this has come at a time when more and more people need our support, particularly with social care. The funding squeeze from government and spending pressures we face are expected to continue over the life of this strategy.

61. The emphasis on savings is therefore to ensure the County Council copes with these pressures and continues to drive though plans to achieve even greater efficiency and cost reductions in order to protect front line services and council priorities. However, the scale of the challenge we continue to face demands that more radical alternatives need to be considered, as continual restructuring of services and contract efficiencies can only deliver so much. With demand pressures continuing to rise on services such as social care, the County Council must evaluate what it is obliged to do and consider all options to continue to live within its means and remain a financially resilient authority.

62. These are challenging financial times for the local government sector, and particularly County Councils with statutory responsibilities for social care and education. These financial challenges are unlikely to improve following the Fair Funding Review, or as a result of the move to 75% funding from business rates in 2020. Given the financial challenges facing the County Council over the life of the Medium Term Financial Strategy more radical options are starting to be required and will need to be found in future. For example, an option currently being considered by other authorities, including East Sussex and

Northamptonshire, is a move towards reviewing all areas of the statutory and discretionary aspects to define the legal responsibility to provide services versus some of the 'choice' based expenditure.

Looking Ahead – Key Risks & Key Opportunities

63. There are a number of major sources of change ahead from the external environment. These offer varying degrees of opportunity but also potential financial risk and instability over the medium term. These include:

- The potential impact from implementing the decision to leave the European Union and its influence on the UK's economic performance and the state of the nation's public finances. Any impact is likely to feed into the next Spending Review which will set national spending allocations for local authorities from 1 April 2020.

- The Government's implementation of the 75% business rate retention system and wider review of fairer funding for local government. This should be done in a cost neutral way nationally. County Councils are expected to increase their share of local business rates from the current 10% allocation, but will lose other funding streams to keep this change cost neutral.

  In the long run such a change provides an opportunity to increase the funding derived from the growth in business rates. However in the short term, there are two consequences to highlight:

  - It will involve a reset of the business rate system and therefore a loss of part of the real term growth in business rate we currently use to help support the base budget.
  - Additional reliance on a volatile income source (business rates) which can vary from year-to-year for many reasons places a greater emphasis on ensuring the county's reserves are strong and able to provide a short term safety net for any sudden drop in this source of income.

- The Government's review of the needs assessment for local authorities, called the Fair Funding Review (FFR). This assessment underlies how Government allocates resources, and is expected to impact on the starting point for the new funding system under 75% proposed business rate retention scheme. It is a considerable time since any similar review was undertaken, which may mean significant change and volatility with funding. The MTFS assumes significant losses are the probable outcome from the FFR. This is based on experience with past reviews, where authorities with a much better than average local tax base (such as West Sussex) tend to be penalised with Government assuming local council tax can replace Government funding.

Revenue Reserves

64. The balance on usable reserves as at 30 June 2018 was £209.5m. The great majority of these reserves are earmarked for a number of particular purposes, mainly to meet future liabilities.

65. The County's prudent financial management has produced a position where its reserves are in a healthy position. However, reserves are reviewed each year to establish the continuing need for them and their adequacy as well as to ensure that taxpayer money is not being held back without good cause. This is inextricably linked to work around future commitments and possible risks the authority might face, and hence includes an element of judgement.

66. The draft budget is being worked up on the basis of not drawing down on reserves as this would only be a short term solution. However, due to the sound financial management of the County Council, the authority has a budget management reserve, which will be used should optimistic assumptions on the less predictable funding sources (such as business rates or the tax base) prove to be incorrect. Increasingly, as we move towards a higher level of funding from business rates, reserves will be needed to protect against the volatility of funding, which moves with the economic cycle, in order to ensure services can be provided during an economic downturn.

Capital Programme

67. A full capital programme to 2022/23 was agreed at the December 2017 County Council meeting. The MTFS assumes a revenue cost of borrowing arising from this capital programme, which will be the primary impact of the capital programme in terms of revenue costs.

68. The capital programme is currently under review and a new year added for 2023/24, no major changes are anticipated and the current programme will be spread over the five year period to 2023/24 and delivered within existing borrowing constraints.

69. Pressure for further investment continues for a number of reasons including:

- Investment for additional school places – as the school roll grows. Our basic need funding from Government is inadequate.

  Over the longer term with 50-60,000 new houses in West Sussex planned this will lead to a greater demand for places across the schools system. New schools places are funded through the DfE Free school process. If these schools do not come forward, or are in the wrong part of the country, the County will need to provide these places through Basic Need Grant and/or Section 106 funding. Any shortfall will need to be met by the County Council increasing strain on the capital programme. The government has already announced we will not receive any basic need funding in 2020/21, although we have been allocated £71.6m in funding for 2018/19 and 2019/20.

- To maintain and improve the local road network

  The Council needs to fund the remaining costs, after Department for Transport (DfT) grant and Section 106 monies, to deliver the required highway works for housing. In the current capital programme we need to fund a total of £23.7m in contributions from the County Council to deliver the required improvements for the A29, A259, A2300 and A284. Financing this cost increases pressure on the revenue budget.

- To support the local economy

  The Council has a provision for £30m in the capital programme to invest in growth schemes across the County. Allowing for the financing costs of these schemes is added pressure to the revenue budget.

- To ensure council property is in a fit state of repair and compliant with health and safety standards

- To support ideas that bring a commercial return or other benefits to the County Council and in turn our residents.

Conclusions

70. This Strategy outlines the financial outlook at a national level and it forecasts future funding levels based on the information received from Government on the level of support it will provide. It also forecasts the yield from council tax as well as other sources of funding. The Strategy outlines the uncertainty and risks the County faces over future funding and budget pressures.

71. The report identifies the budget gap as **£145.1m** over the next four years without a council tax rise and **£92.3m** with a council tax rise.

72. Work is on-going to close the budget gap identified in this report. More information on savings will be reported during the autumn. In summary at the present time, the position is as shown in table 9 below:

Table 9: Budget gap to 2022/23

	2019/20 £m	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Net expenditure	580.4	590.7	582.4	583.4	
Available funding	529.5	551.5	553.7	557.1	
Gross budget gap: before council tax	50.9	39.2	28.7	26.3	145.1
Less:					
Additional council tax	-22.0	-9.7	-10.3	-10.7	-52.7
Revised gap	**28.9**	**29.5**	**18.4**	**15.6**	**92.3**
Latest estimated savings	-20.6	-13.5	-5.3	0	-39.4
Remaining gap	**8.3**	**16.0**	**13.1**	**15.6**	**52.9**

* Note figures may be rounded

73. The savings reflects the current picture with draft savings plans stretching over the next three years. Based on the savings plans currently being worked-up, the remaining budget gap for 2019/20 is £8.3m. This depends on the plans to deliver £20.6m of savings, where work is underway to ensure plans are robust and deliverable.

74. An updated forecast will be presented as a part of the budget setting process for 2019/20, informed by further work on our future funding, including the Chancellor's Autumn Statement and OBR economic and public finance projections published alongside.

75. A timetable for currently planned savings proposals and budget timetable is attached at Appendix 2.

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Appendices
Appendix 1 Spending pressures by portfolio
Appendix 2 Savings Decisions and Budget Timetable: Summary

Background Papers
None

Appendix 1

Spending Pressures by Portfolio

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Corporate Pressures:				
Pay and Price inflation	12.0	10.0	10.7	10.7
Capital financing	1.4	2.1	1.5	1.5
Loss of one off funding	2.4	2.2	0.0	0.0
Essential IT developments	0.8	-0.2	-0.2	0.2
Other	2.0	0.5	4.0	3.5
Service Pressures:				
Adults and Health				
Rising population impact	7.3	7.8	5.8	5.8
National living wage	3.6	4.2	0.0	0.0
Other	1.5	0.0	0.0	0.0
Children and Young People				
Children's demand pressures	7.9	1.9	1.9	2.1
Other	1.4	0.9	0.5	0.0
Education and Skills				
High Needs	4.9	6.4	6.0	6.0
SEN/School Transport	2.4	0.4	0.4	0.4
Other	0.4	0.0	0.0	0.0
Other Services	1.5	0.2	0.7	0.0
Total	**49.6**	**36.4**	**31.3**	**30.2**

* Note figures may be rounded

Appendix 2

Savings Decisions and Budget Timetable: Summary

Date	Meeting	Tasks
27 September	Health and Adults Select Committee	Preview savings decisions
5 October	PFSC	Review of Medium Term Financial Strategy
31 October	Children and Young People Select Committee	Preview savings decisions
14 November	Environment, Communities and Fire Select	Preview savings decisions
15 November	Health and Adults Select Committee	Preview savings decisions
22 November	Performance and Finance Select	Budget gap and update on savings
January	Member Day	Presentation on Draft Budget
17 January	PFSC	Draft Budget Papers
29 January	Cabinet	Agree budget to recommend to County Council
15 February	County Council	Agree budget, amended capital programme and council tax